



July 3, 2008

Cover Story

RECESSION & FINANCE

Cash is king during lean times

By Jerry Hicks

Traditional banks are more worried than ever about getting paid back. Cash is king during lean times, says Anil Puri, dean of Cal State Fullerton's College of Business and Economics: "You will see a scrutinizing of your credit more and more."

Financing is always the first issue for any major building project. "Before anything else, the first question asked is, 'What revenue can you raise?'" says John M.W. Moorlach, chairman of the Orange County Board of Supervisors. "It comes even before 'What spending can you cut?'"

So, what do you do as a business if the banks won't loan you money? Some businesses are looking to private equity groups for extra capital, and even to foreign investment.

The experts say that's good, but with huge, huge asterisks.

Brandon Birtcher, owner and CEO of Birtcher Development & Investments in Irvine, mildly recommends either private investment or even foreign investment as a way to get past tough times.

"But you just have to be really, really careful what the terms are," he says. "Don't get caught up in thinking a short-term solution will solve a long-term problem."

His advice: "Set your own stress test. If a source of capital stresses your risk model, then it's best to avoid it. Step back, wait for a better time, when you can deal with more traditional loan institutions."

Too many private investors expect too big a trade-off, according to Puri: "Either their

interest rates are way too high, or they set terms that let them wind up with part of your equity. You have really got to be cautious when you go with some of these private loan groups.”

His advice is to get an expert opinion before such risky investments. Find out who else has dealt with such investors and with what success.

Steve O’Leary, a business author, and economic and advertising consultant, points out that private investment groups aren’t in this to do you a favor: “They want something. And what you have to decide is how much risk you’re willing to take to use their funding.”

One piece of advice from the experts: Try for multiple investor groups. That way, says Birtcher, it becomes a community investment. The burden is not all on one investor, and there is greater reason to see you succeed.

O’Leary has seen successful ventures where such partners go with the business owner to a traditional bank – it gives added weight to the chances of getting a loan.

Moorlach suggests another offspring of the traditional loan process. “We are seeing some successful public-private partnerships,” he says. “Sometimes this can be the most reliable route.”

Bottom line: If you go the private investor route without considerable research, don’t complain if things somehow go astray. OCMB